



**U.S. Department of the Interior
Office of Inspector General**

AUDIT REPORT

STATUS OF RECOMMENDATIONS FROM THE TASK FORCE ON ROYALTY COMPLIANCE

**REPORT NO. 95-I-545
FEBRUARY 1995**



United States Department of the Interior

OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20240

FEB 28 1995


MEMORANDUM

TO: The Secretary

FROM: Acting Inspector General

SUBJECT SUMMARY: Final Audit Report for Your Information - "Status of Recommendations From the Task Force on Royalty Compliance" (No. 95-I-545)

DISCUSSION: We concluded that the Minerals Management Service made significant progress in implementing the recommendations made by the Task Force on royalty compliance. The recommendations were designed to encourage voluntary payer/producer compliance by clarifying existing laws and regulations, fully integrating Royalty Management Program compliance activities, increasing the use of automated systems to determine royalty compliance, and developing methods for measuring overall royalty compliance.


Joyce N. Fleischman

Attachment

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United States Department of the Interior

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Headquarters Audits
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FEB 23 1995

MEMORANDUM AUDIT REPORT

To: Director, Minerals Management Service

From: Acting Assistant Inspector General for Audits

Subject: Final Audit Report on the Status of Recommendations From the Task Force on Royalty Compliance (No. 95-I-545)

INTRODUCTION

The Office of Inspector General reviewed the implementation status of the 26 recommendations presented in the "Report of the Task Force on Royalty Compliance," issued in June 1991. The objective of our review was to assess the progress of the Minerals Management Service in implementing the report's 26 recommendations. We concluded that the Service had made substantial progress in implementing the Task Force's recommendations.

BACKGROUND

The Service's Royalty Management Program is responsible for collecting and distributing revenues generated from producing Federal and Indian mineral leases and thus is a major source of income for the Federal Government, Indians, and states. During 1990, the Assistant Secretary for Land and Minerals Management directed that an in-house Task Force evaluate the existing Royalty Compliance Program, identify areas for improvement, and reduce the Program's vulnerability to potential legal challenges.

The Task Force was composed of the Deputy Assistant Secretary for Land and Minerals Management and the Deputy Director and Chief, Royalty Management Analysis Division, Minerals Management Service. In June 1991, the Task Force issued its report on royalty compliance, which proposed that the Royalty Management Program undertake major changes to ensure that royalties are correctly reported and paid. The Task Force review resulted in 26 recommendations designed to encourage voluntary payer/producer compliance by clarifying existing laws and

regulations, fully integrating Royalty Management compliance activities, increasing the use of automated systems to determine royalty compliance, and developing methods for measuring overall royalty compliance.

In order to implement the recommendations, the Service developed an Action Plan for Royalty Compliance in November 1991, which was updated in January 1993 and in January 1994. The Action Plan focused on six areas of emphasis: management and policy, a pilot program, enforcement, audit, regulations, and systems. Within each area, the Action Plan contained action elements that corresponded to a specific Task Force recommendation, and these action elements contained 112 steps to implement the 26 recommendations. The Service's Office of Policy and Management Improvement was primarily responsible for ensuring that Royalty Management personnel completed the implementation steps contained in the Action Plan and thereby fully implemented the Task Force's recommendations. As stated in the Action Plan, the Service anticipated completing the plan by January 1, 1995.

SCOPE OF AUDIT

This performance review was conducted from July 1993 through November 1994 at the Service's Office of Policy and Management Improvement and the Royalty Management Program Office in Lakewood, Colorado. The scope of our work was limited to reviewing the Service's efforts to implement the recommendations made in the 1991 Task Force Report. Since we initially determined that the Action Plan, action elements, and implementation steps were consistent with the 26 Task Force recommendations, we focused our review on the work associated with completing the implementation steps. Records maintained in the Office of Policy and Management Improvement indicated that as of July 1993, 67 of the 112 implementation steps had been implemented. During our review, we examined the work accomplished to complete these 67 implementation steps to verify that the work had been fully completed and the intent of each step had been satisfied. Additionally, we reviewed the status of the remaining implementation steps to determine whether the Service would complete all implementation steps within the anticipated 3-year time frame.

Our review was made in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances. As part of the audit, we reviewed the Department of the Interior Annual Statement and Report to the President and the Congress for fiscal years 1993 and 1994, required by the Federal Managers' Financial Integrity Act, to determine whether any reported weaknesses were within the objective and scope of our audit. We determined that none of the reported weaknesses were directly related to the objective and scope of our review.

RESULTS OF AUDIT

We concluded that the Service had made significant progress in implementing the 26 Task Force recommendations. Each implementation step that the Service considered complete was adequately accomplished and satisfied the intent of the recommendation. Although the Service may not complete all 112 of the implementations steps within the anticipated 3-year time frame, the Service has been working diligently to finalize and implement all the steps. For example, certain implementation steps in the Enforcement Section of the Action Plan require that draft regulations be issued. However, because of the amount of time generally involved in the rule-making process, additional time will be required for full implementation. Nevertheless, we believe that the implementation steps taken or planned by the Service to date have satisfactorily addressed all 26 Task Force recommendations.

Since this report does not contain any recommendations, no response is required. However, if you have any questions regarding this report, please contact Mr. Alan M. Klein, Regional Audit Manager, Central Region, at (303) 236-9243.



Marvin Pierce

cc: Assistant Secretary - Land and Minerals Management

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